

June 17, 2005

Mr. Lyons Gray
President, Downtown Winston-Salem Partnership
500 W. 4th Street
Suite 101
Winston Salem, NC 27101-2782

Dear Mr. Gray:

Thank you for your letter to Administrator Stephen L. Johnson dated March 16, 2005, in which you transmit on behalf of the Environmental Financial Advisory Board (EFAB), the white paper entitled *The Application of Innovative Finance Techniques in the Transportation Infrastructure & Financial Innovation Act of 1998 to Environmental Finance Issues*. I once again appreciate the opportunity to review and examine any input from EFAB. I found EFAB's previous report on useful life financing to be particularly helpful in a time in which we at the Environmental Protection Agency (EPA) are trying to maximize the environmental benefit of every available dollar.

The report addresses the practice of "backloading," a financing technique authorized in the Transportation Infrastructure & Financial Innovation Act of 1998 (TIFIA). While TIFIA's authorizing language does not provide any type of authorization for use of these financing techniques in EPA's financing programs, EFAB recommends that EPA seek authorization to apply "backloading" to its own programs. With EFAB's permission, and the understanding that responses from other EPA offices will be forthcoming, this response will deal only with applying "backloading" to EPA's State Revolving Fund (SRF) programs.

"Backloading" is a practice in which debt repayment is scheduled towards the back-end of a project. This is a useful technique for financing projects which require substantial capital, but will not realize revenue from the project until some years into the future. For instance, when redeveloping a brownfield site, a developer will need substantial capital for development, yet the benefits deriving from the redevelopment will not be realized until after the project has been completed, the new development has been marketed, and the space developed is occupied.

A situation in which "backloaded" wastewater loans could be used to a community's advantage is where a small community needs to build improvements in its treatment plant, but does not believe it will have the user fee capacity in the near-term to repay the loan. If the community expects to have the capacity in the future, a "backloaded" loan will provide the necessary capital to complete the project. Of course, there is a risk that the community will not have the ability to make payments on the loan when they come due.

Under the SRF programs, States have the authority to issue “backloaded” loans. The only repayment requirement in the program is that the borrower must begin repaying a loan one year after project completion. The State and the borrower, however, may negotiate the specific terms of the loan repayment schedule and may agree to schedule the bulk of the payments at the back-end of the loan. For instance, the City of Burlington was allowed to schedule a “balloon” payment on its loans from the Vermont Clean Water SRF program. It should be noted, however, that while the use of “backloaded” loans for a few small borrowers may bring benefits to those communities, heavy use of such loans will deplete the level of loan repayments being made to the SRF programs, and thereby undermine the essential purpose of an SRF program, the ability to fund needed projects indefinitely into the future.

Thank you again for providing this valuable input. The use of “backloading” in EPA’s water infrastructure financing programs is an option that will remain available to future borrowers; however, the technique should be used discriminately. I encourage you to continue examining innovative methods for addressing the nation’s infrastructure needs. If you have any questions or wish to speak further about this issue, please contact James A. Hanlon, Director, Office of Wastewater Management, at (202) 564-0748.

Sincerely,

/original signed by Benjamin H. Grumbles/

Benjamin H. Grumbles
Assistant Administrator

June 17, 2005

Mr. A. Stanley Meiburg
Executive Director, EFAB
61 Forsythe Street, SW
Atlanta, GA 30303

Dear Mr. Meiburg:

Thank you for your letter to Administrator Stephen L. Johnson dated March 16, 2005, in which you transmit on behalf of the Environmental Financial Advisory Board (EFAB), the white paper entitled *The Application of Innovative Finance Techniques in the Transportation Infrastructure & Financial Innovation Act of 1998 to Environmental Finance Issues*. I once again appreciate the opportunity to review and examine any input from EFAB. I found EFAB's previous report on useful life financing to be particularly helpful in a time in which we at the Environmental Protection Agency (EPA) are trying to maximize the environmental benefit of every available dollar.

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